

Fiscal Services Division

Legislative Services Agency

Fiscal Note

HF 831 - Seed Capital Funds (LSB 1984 HZ)

Analyst: Russell Trimble (Phone: (515) 281-4613) (russ.trimble@legis.state.ia.us)

Fiscal Note Version - New

Description

House File 831 does the following:

- Extends the period for which unused tax credits can be issued for equity investments in qualifying businesses or community-based seed capital funds. Currently, the aggregate amount of tax credits issued is limited to \$10.0 million during the fiscal period beginning July 1, 2002, and ending June 30, 2005. The Bill extends the period indefinitely or until the \$10.0 million limit is reached. As of March 8, 2005, the amount of tax credits issued totaled \$1.8 million.
- Caps the amount of tax credits that may be issued in any one fiscal year at \$3.0 million.
- Changes various criteria a qualifying business must meet in order to receive investments that are eligible for tax credits. The Bill changes the criteria that the business must have been in operation for three years or less to six years or less, and changes the criteria that the business shall not have a net worth that exceeds \$3.0 million by increasing the maximum net worth allowed to \$10.0 million.
- Allows capital commitment requirements to be waived if the fund is an Iowa-based seed capital fund with at least 40.0% of its committed capital subscribed by community-based seed capital funds. Currently, there are capital commitment limits for community-based seed capital funds, and the requirements may be waived only if the fund is a rural business investment company under the Rural Business Investment Program of the federal Farm Security and Rural Investment Act of 2002.
- Changes the measurement period for which a community-based seed capital fund is required to invest a certain percentage of its capital in qualifying businesses from the 36th month to the 48th month. Currently, if a community-based seed capital fund has not invested at least 33.0% of its invested capital in one or more separate qualifying businesses, measured at the end of the 36th month after commencing the fund's investing activities, tax credit certificates issued for investments in the fund may be rescinded.
- Prohibits an investor from receiving an additional tax credit for the investor's share of investments in an Iowa-based seed capital fund with at least 40.0% of its committed capital subscribed by community-based seed capital funds. Currently, an investor in a community-based seed capital fund only receives a tax credit for the investor's investment in the fund and cannot receive any additional tax credit for the investor's share of investments in a qualifying business.
- Allows a community-based seed capital fund to invest up to 60.0% of its committed capital in an Iowa-based seed capital fund with at least 40.0% of its committed capital subscribed by community-based seed capital funds. Currently, a community-based seed capital fund is prohibited from investing in the Iowa Fund of Funds.

Assumptions

1. Approximately \$8.0 million of previously authorized, un-issued tax credits will be carried forward and issued in FY 2006 and subsequent fiscal years until depleted.
2. The Department of Revenue expects HF 831 to result in an increase in tax credits issued under the Program. While there is no way to accurately measure the anticipated increase in

Program utilization, the Department estimates approximately \$1.0 million in tax credits will be issued each year until depleted beginning in FY 2006.

3. A tax credit issued under this Program cannot be utilized until three years following the date of issuance. The tax credits issued in a given fiscal year will be entirely utilized in the third fiscal year from the date of issuance.

Fiscal Impact

House File 831 will reduce General Fund revenues by an estimated \$1.0 million annually for eight fiscal years beginning in FY 2009.

Source

Department of Revenue

/s/ Holly M. Lyons

April 5, 2005

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
